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ATLANTIC TECHNOLOGY VENTURES INC
Form 10QSB/A
July 16, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB/A
(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2001

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission file number 0-27282

ATLANTIC TECHNOLOGY VENTURES, INC.

(Exact name of small business issuer as specified in its charter)

Delaware 36-3898269

(State or other jurisdiction of (I.R.S. Employer incorporation or organization) Identification No.)

350 Fifth Avenue, Suite 5507, New York, New York 10118

(Address of principal executive offices)

(212) 267-2503

(Issuer's telephone number)

150 Broadway, Suite 1110, New York, New York 10038

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Number of shares of common stock outstanding as of May 1, 2001: 6,531,447

Transitional Small Business Disclosure Format (check one): Yes No

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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

ATLANTIC TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES
(A Development Stage Company)
Consolidated Balance Sheets

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	March 31, 2001
Assets	----- (Unaudited)
Current assets:	
Cash and cash equivalents	\$ 2,581,4
Accounts receivable	
Prepaid expenses	29,3

Total current assets	2,610,8
Property and equipment, net	259,2
Investment in affiliate	63,6
Other assets	22,8

Total assets	\$ 2,956,5
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable and accrued expenses	\$ 779,2
Deferred revenue	

Total current liabilities	\$ 779,2

Redeemable Series B preferred stock.	
Authorized 1,647,312 shares; 0 and 206,898 shares issued and outstanding at March 31, 2001 and December 31, 2000 respectively	
Stockholders' equity:	
Preferred stock, \$.001 par value. Authorized 10,000,000 shares; 1,375,000 shares designated as Series A convertible preferred stock	
Series A convertible preferred stock, \$.001 par value. Authorized 1,375,000 shares; 351,588 and 359,711 shares issued and outstanding at March 31, 2001 and December 31, 2000, respectively (liquidation preference aggregating \$4,570,644 and \$4,676,243 at March 31, 2001 and December 31, 2000, respectively)	
	3
Convertible preferred stock warrants, 112,896 issued and outstanding at March 31, 2001 and December 31, 2000	
	520,2
Common stock, \$.001 par value. Authorized 50,000,000 shares: 6,458,424 and 6,122,135 issued and outstanding at March 31, 2001 and December 31, 2000	
	6,4
Common stock subscribed. 182 shares at March 31, 2001 and December 31, 2000	
	24,957,3
Additional paid-in capital	
	(23,306,5
Deficit accumulated during development stage	

	2,177,8
Less common stock subscriptions receivable	(2
Less treasury stock, at cost	(3

Total stockholders' equity	2,177,2

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Total liabilities and stockholders' equity

\$ 2,956,5
=====

See accompanying notes to consolidated financial statements.

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ATLANTIC TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES
(A Development Stage Company)
Consolidated Statement of Operations
(Unaudited)

	Three months ended March 31,	
	2001	2000
Revenues:		
Development revenue	\$ 2,461,922	912,481
License revenue	--	--
Grant revenue	250,000	13,009
	-----	-----
Total revenues	2,711,922	925,490
	-----	-----
Costs and expenses:		
Cost of development revenue	2,082,568	729,985
Research and development	306,767	127,439
Acquired in-process research and development	--	--
General and administrative	681,948	495,678
Compensation expense relating to stock warrants (general and administrative)	11,971	990,820
License fees	--	--
	-----	-----
Total operating expenses	3,083,254	2,343,922
	-----	-----
Operating loss	(371,332)	(1,418,432)
Other (income) expense:		
Interest and other income	(20,018)	(40,190)
Interest expense	--	--
Equity in (earnings) loss of affiliate	3,721	--
Gain on sale of Optex assets	(2,809,451)	--
Distribution to Optex minority shareholders	767,514	--
	-----	-----

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Total other (income) expense	(2,058,234)	(40,190)
Net income (loss)	\$ 1,686,902	(1,378,242)
Imputed convertible preferred stock dividend	600,000	--
Dividend paid upon repurchase of Series B	167,127	--
Preferred stock dividend issued in preferred shares	64,144	659,319
Net income (loss) applicable to common shares	\$ 855,631	(2,037,561)
Net income (loss) applicable to common shares per share:		
Basic	\$ 0.13	(0.41)
Diluted	\$ 0.10	(0.41)
Weighted average shares of common stock outstanding:		
Basic	6,384,613	4,968,921
Diluted	8,237,212	4,968,921

See accompanying notes to consolidated financial statements

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ATLANTIC TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES
(A Development Stage Company)
Consolidated Statement of Cash Flows
(Unaudited)

	Three months ended March 31,	
	2001	2000
Cash flows from operating activities:		
Net income (loss)	\$1,686,902	(1,378,242)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Acquired in-process research and development	--	--
Expense relating to issuance of warrants	--	--
Expense relating to the issuance of options	--	--
Expense related to Channel merger	--	--
Change in equity of affiliate	3,721	--
Compensation expense relating to stock options and		

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warrants	11,971	990,820
Discount on notes payable - bridge financing	--	--
Depreciation	26,943	15,757
Gain on sale of Optex assets	(2,809,451)	--
Distribution to Optex minority shareholders	767,514	--
Loss on disposal of furniture and equipment	--	--
Changes in assets and liabilities:		
Decrease in accounts receivable	192,997	17,927
Increase in prepaid expenses	(6,721)	(20,185)
Decrease in deferred revenue	(1,294,615)	--
Increase (decrease) in accrued expenses	(169,592)	(46,815)
Increase in accrued interest	--	--
Increase in other assets	(19,937)	(2,901)
	-----	-----
Net cash used in operating activities	(1,610,268)	(423,639)
	-----	-----
Cash flows from investing activities:		
Purchase of furniture and equipment	(86,660)	(6,116)
Investment in affiliate	--	(250,000)
Proceeds from sale of Optex assets	3,000,000	--
Proceeds from sale of furniture and equipment	--	--
	-----	-----
Net cash provided by (used in) investing activities	2,913,340	(256,116)
	-----	-----
Cash flows from financing activities:		
Proceeds from exercise of warrants	--	--
Proceeds from exercise of stock options	--	321,039
Proceeds from issuance of demand notes payable	--	--
Repayment of demand notes payable	--	--
Proceeds from the issuance of notes payable - bridge financing	--	--
Proceeds from issuance of warrants	--	--
Repayment of notes payable - bridge financing	--	--
Repurchase of common stock	--	--
Preferred stock dividend paid	(577)	--
Proceeds from the issuance of common stock	--	--
Proceeds from issuance of convertible preferred stock	--	--
Repurchase of convertible preferred stock	(617,067)	--
Distribution to Optex minority shareholders	(767,514)	--
	-----	-----
Net cash provided by (used in) financing activities	(1,385,158)	321,039
	-----	-----
Net increase (decrease) in cash and cash equivalents	(82,086)	(358,716)
Cash and cash equivalents at beginning of period	2,663,583	3,473,321
	-----	-----
Cash and cash equivalents at end of period	\$2,581,497	3,114,605
	=====	=====
Supplemental disclosure of non-cash financing activities:		
Issuance of common stock in exchange for common stock subscriptions	\$ --	--
Conversion of demand notes payable and the related accrued interest to common stock	--	--
Cashless exercise of preferred warrants	--	--
Conversion of preferred to common stock	336	289
Preferred stock dividend issued in shares	64,144	659,324
	=====	=====

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See accompanying notes to consolidated financial statements.

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ATLANTIC TECHNOLOGY VENTURES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) March 31, 2001

(1) BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, the financial statements do not include all information and footnotes required by Generally Accepted Accounting Principles for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments, consisting of only normal recurring adjustments, considered necessary for fair presentation. Interim operating results are not necessarily indicative of results that may be expected for the year ending December 31, 2001 or for any subsequent period. These consolidated financial statements should be read in conjunction with Atlantic Technology Ventures, Inc., and Subsidiaries' ("Atlantic") Annual Report on Form 10-KSB as of and for the year ended December 31, 2000.

(2) LIQUIDITY

Atlantic anticipates that their current liquid resources will be sufficient to finance their currently anticipated needs for operating and capital expenditures for at least the next twelve months. In addition, Atlantic will attempt to generate additional capital through a combination of collaborative agreements, strategic alliances and equity and debt financing. However, Atlantic can give no assurance that they will be able to obtain additional capital through these sources or upon terms acceptable to them.

On March 16, 2001, Atlantic entered into a common stock purchase agreement with Fusion Capital Fund II, LLC pursuant to which Fusion Capital agreed to purchase up to \$6.0 million of our common stock which will commence upon effective registration and certain other conditions. A material contingency that may affect Atlantic's operating plans and ability to raise funds is its stock price. If its stock price remains at current levels, Atlantic will be limited in the amount of funds it will be able to draw as defined by the Fusion Capital agreement. As the Fusion Capital agreement is currently structured, Atlantic does not have a guarantee that it will be able to draw any funds. See note 11 below and see liquidity discussion within Management's Discussion and Analysis of Financial Condition and Results of Operations.

(3) COMPUTATION OF NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is calculated by dividing net income (loss) applicable to common shares by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per common share is calculated by dividing net income (loss) applicable to common shares plus the impact of the assumed preferred stock conversions totaling \$231,271, by the weighted average common shares outstanding for the period plus 1,888,599 common stock equivalents from assumed conversions of the Series A and Series B preferred stock if dilutive. The common stock equivalents from stock options, stock warrants, and stock subscriptions have not been included in the diluted calculations as their effect is anti-dilutive.

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(4) RECENTLY ISSUED ACCOUNTING STANDARDS

On January 1, 2001, Atlantic adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of SFAS No. 133" and SFAS No. 133, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". SFAS No. 138 amends the accounting and reporting standards of SFAS No. 133 for certain derivative instruments and certain hedging activities. SFAS No. 133 requires a company to recognize all derivative instruments as assets and liabilities in its balance sheet and measure them at fair value. The adoption of these statements did not have a material impact on Atlantic's consolidated financial position, results of operations or cash flows, as Atlantic is currently not party to any derivative instruments.

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(5) INCOME TAXES

Atlantic generated book income solely in the quarter ended March 31, 2001 as a result of the sale of Optex assets to Bausch & Lomb as described further in note 10. However, Atlantic does not expect to generate book income for the year ended December 31, 2001; therefore, no income taxes have been reflected for the three months ended March 31, 2001.

(6) PREFERRED STOCK DIVIDEND

On January 16, 2001, Atlantic's board of directors declared a payment-in-kind dividend of 0.065 of a share of Series A convertible preferred stock ("Series A Preferred") for each share of Series A Preferred held as of the record date of February 7, 2001. The estimated fair value of this dividend of \$64,144 was included in Atlantic's calculation of net income (loss) per common share for the three months ended March 31, 2001. The equivalent dividend for the three months ended March 31, 2000 had an estimated fair value of \$659,319 and is recorded in the same manner.

(7) ISSUANCE OF STOCK WARRANTS

As more fully described in Note 9 to Atlantic's Annual Report on Form 10-KSB as of and for the year ended December 31, 2000, on January 4, 2000, Atlantic entered into a Financial Advisory and Consulting Agreement with Joseph Stevens & Company, Inc. pursuant to which Atlantic issued to Joseph Stevens & Company, Inc. three warrants to purchase an aggregate of 450,000 shares of its common stock. Atlantic recorded compensation expense relating to these stock warrants in the amount of \$990,820 for the three month period ended March 31, 2000. No such compensation is required subsequent to December 31, 2000.

On March 8, 2001, Atlantic entered into an agreement with The Investor Relations Group, Inc. (IRG) under which IRG will provide Atlantic investor relations services pursuant to which Atlantic issued to Dian Griesel warrants to purchase 120,000 shares of its common stock at an exercise price of \$0.875 per share. These warrants will vest in 5,000 share monthly increments over a 24 month period. In addition, should Atlantic's stock price reach \$2.50, Atlantic will grant Dian Griesel an additional 50,000 warrants. Should Atlantic's stock price reach \$5.00, Atlantic will grant Dian Griesel a further 50,000 warrants. As a result, Atlantic recorded compensation expense relating to these stock warrants of \$11,971 pursuant to EITF Issue No. 96-18 for the three

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month period ended March 31, 2001 and will remeasure the compensation expense at the end of each reporting period until the final measurement date is reached in 24 months.

Compensation for these warrants relates to investment banking and investor relations services and represents a general and administrative expense.

(8) REDEEMABLE SERIES B PREFERRED SHARES

On September 28, 2000, pursuant to a Convertible Preferred Stock and Warrants Purchase Agreement (the Purchase Agreement) Atlantic issued to BH Capital Investments, L.P. and Excalibur Limited Partnership (together, the Investors) for a purchase price of \$2,000,000, 689,656 shares of Atlantic's Series B convertible preferred stock (Series B Preferred) and warrants to purchase 134,000 shares of Atlantic's common stock. Half of the shares of the Series B Preferred (344,828 shares) and warrants to purchase half of the shares of common stock (67,000 shares) were held in escrow, along with half of the purchase price.

On December 4, 2000, Atlantic and the Investors entered into a stock repurchase agreement (the Stock Repurchase Agreement) pursuant to which Atlantic repurchased from the investors a portion of the outstanding shares.

Pursuant to Atlantic's renegotiations with the Investors, Atlantic was required, among other things, to redeem on March 28, 2002, all outstanding shares of Series B Preferred for (A) 125% of the original issue price per share or (B) the market price of the shares of common stock into which they are convertible, whichever is greater (the Redemption Price). Atlantic would have been able to at any time redeem all outstanding shares of Series B Preferred at the Redemption Price. As a result of the renegotiations discussed in this paragraph, the Series B Preferred was considered redeemable and the remaining outstanding shares at December 31, 2000 were classified

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outside of permanent equity in the accompanying consolidated balance sheet. At December 31, 2000, Atlantic had 206,898 shares outstanding at a carrying amount of \$2.90 per share.

Holder of shares of Atlantic's outstanding Series B Preferred could convert each share into shares of common stock without paying Atlantic any cash. The conversion price per share of the Series B Preferred was also amended by the second amendment to the Purchase Agreement. The conversion price per share of Series B Preferred on any given day is the lower of (1) \$1.00 or (2) 90% of the average of the two lowest closing bid prices on the principal market of the common stock out of the fifteen trading days immediately prior to conversion. The change in conversion price upon the renegotiations on January 9, 2001 resulted in a difference between the conversion price of the Series B Preferred and the market price of the common stock on the effective date of the renegotiation. This amount, estimated at \$600,000, was recorded as an imputed preferred stock dividend within equity and is deducted from net income (loss) to arrive at net income (loss) applicable to common shares during the first quarter of 2001.

On January 19, 2001, 41,380 shares of Series B Preferred were converted by the Investors into 236,422 shares of Atlantic's common stock. On March 9, 2001, Atlantic and the Investors entered into Stock Repurchase Agreement No. 2, pursuant to which Atlantic repurchased from the Investors, for

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an aggregate purchase price of \$617,067, all 165,518 shares of Atlantic's Series B Preferred held by the Investors on March 9, 2001. The carrying amount of the 165,518 shares is equal to \$480,000; therefore the amount in excess of the carrying amount, which equals \$167,127, was recorded as a dividend upon repurchase of Series B Preferred shares and is deducted from net income (loss) to arrive at net income (loss) applicable to common shares.

(9) DEVELOPMENT REVENUE

In accordance with an amended license and development agreement, which was subsequently terminated as described below in note 10, Bausch & Lomb Surgical reimbursed Atlantic's subsidiary, Optex Ophthalmologics, Inc. ("Optex"), for costs Optex incurred in developing its Catarex(TM) technology, plus a profit component. For the three months ended March 31, 2001, this agreement provided \$2,461,922 of development revenue, and related cost of development revenue of \$2,082,568. For the three months ended March 31, 2000, this agreement provided \$912,481 of development revenue, and related cost of development revenue of \$729,985. The agreement was terminated in March 2001 (see note 10 below).

(10) SALE OF OPTEX ASSETS

Pursuant to an asset purchase agreement dated January 31, 2001, among Bausch & Lomb, a Bausch & Lomb affiliate, Atlantic, and Optex, on March 2, 2001, Optex sold to Bausch & Lomb substantially all of its assets (mostly intangible assets with no book value), including all those related to the Catarex technology. The purchase price was \$3 million paid at closing (approximately \$564,000 of which was distributed to Optex's minority shareholders). In addition, Optex is entitled to receive additional consideration, namely \$1 million, once Bausch & Lomb receives regulatory approval to market the Catarex device in Japan, royalties on net sales on the terms stated in the original development agreement dated May 14, 1998, between Bausch & Lomb and Optex, as amended, and minimum royalties of \$90,000, \$350,000, and \$750,000 for the first, second, and third years, respectively, starting on first commercial use of the Catarex device or January 1, 2004, whichever is earlier. Optex also has the option to repurchase the acquired assets from Bausch & Lomb if it ceases developing the Catarex technology.

Upon the sale of Optex assets, Bausch & Lomb's development agreement with Optex was terminated and Optex has no further involvement with Bausch & Lomb. As a result of this transaction, Atlantic recorded a gain on the sale of Optex assets of \$2,809,451. The purchase price of \$3,000,000 is nonrefundable and upon the closing of the asset purchase agreement in March 2001, Optex has no further obligation to Bausch & Lomb or with regard to the assets sold. Upon the closing of the asset purchase agreement, Optex agreed to forgo future contingent payments in exchange for the receipt of a one-time \$3 million payment and the same potential for future royalties. Pursuant to Atlantic's agreement with the minority shareholders of Optex, Optex made a profit distribution in March 2001 of \$767,514 representing the minority shareholders' percentage of the cumulative profit from the Bausch & Lomb development and asset purchase agreements up to and including proceeds from the sale of Optex' assets. (This figure includes the \$564,000 referred to above.) Three former employees of Optex have made claims of \$240,000 in aggregate pursuant to their employment agreements for severance in connection with the sale of Optex. The Company does not believe the terms or intention of the parties pursuant to the transaction constituted

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an event of termination of employment as defined in the employment agreements requiring the payment of severance and has therefore, not accrued any estimated liability as of March 31, 2001.

(11) PRIVATE PLACEMENT OF COMMON SHARES

On March 16, 2001, Atlantic entered into a common stock purchase agreement with Fusion Capital Fund II, LLC pursuant to which Fusion Capital agreed to purchase up to \$6.0 million of our common stock over a 30-month period, subject to a 6-month extension or earlier termination at our discretion. The receipt of funds under this agreement will commence upon effective registration, which Atlantic expects in June 2001, and certain other conditions being satisfied. The selling price of the shares will be equal to the lesser of (1) \$20.00 or (2) a price based upon the future market price of the common stock, without any fixed discount to the market price. A material contingency that may affect Atlantic's operating plans and ability to raise funds is its stock price. If its stock price remains at current levels, Atlantic will be limited in the amount of funds it will be able to draw as defined by the Fusion Capital agreement. As the Fusion Capital agreement is currently structured, Atlantic does not have a guarantee that it will be able to draw any funds. Atlantic paid a finder's fee of \$120,000 in relation to this agreement in April 2001 which is included in general and administrative expense for the three month period ended March 31, 2001. Atlantic amended its agreement with Fusion on March 16, 2001, to allow Atlantic to draw funds pursuant to the agreement regardless of its listing status on the Nasdaq SmallCap Market.

(12) SUBSEQUENT EVENTS

An asset purchase agreement dated April 23, 2001, among Atlantic, Atlantic's majority-owned subsidiary Gemini Technologies, Inc., the Cleveland Clinic Foundation (CCF) and CCF's affiliate IFN, Inc. was signed in which Gemini will sell, upon meeting certain closing conditions, to IFN substantially all its assets, including all those related to the 2-5A antisense enhancing technology for future contingent royalty payments and agreed upon withdrawal of CCF's arbitration demand against Atlantic and Gemini. The transaction is expected to close during the second quarter of 2001 and will be beneficial to Atlantic as they will avoid the possibility of terminating the Cleveland sublicense with no compensation to Gemini and substantial shutdown costs that Gemini would likely have incurred without this asset purchase agreement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our results of operations and financial condition in conjunction with our Annual Report on Form 10-KSB/A for the year ended December 31, 2000. This discussion includes "forward-looking" statements that reflect our current views with respect to future events and financial performance. We use words such as we "expect," "anticipate," "believe," and "intend" and similar expressions to identify forward-looking statements. Investors should be aware that actual results may differ materially from our expressed expectations because of risks and uncertainties inherent in future events, particularly those risks identified in the "Risk Factors" section of the annual report on form 10KSB/A and should not unduly rely on these forward looking statements.

RESULTS OF OPERATIONS

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THREE MONTH PERIOD ENDED MARCH 31, 2001 VS. 2000

In accordance with a license and development agreement, as amended, Bausch & Lomb Surgical has paid our subsidiary, Optex Ophthalmologics, Inc. ("Optex"), for developing its Catarex technology. For the three months ended March 31, 2001, this agreement provided \$2,461,922 of development revenue, and related cost of development revenue of \$2,082,568. For the three months ended March 31, 2000, this agreement provided \$912,481 of development revenue, and related cost of development revenue of \$729,985. The primary reason for the substantial increase in revenues over last year was the recognition of a project completion bonus of \$1,067,345 paid out and recognized at the completion of the project in March 2001. With the termination of the above agreement at the conclusion of the sale of substantially all of Optex's assets (mostly intangible assets with no book value) in March 2001, as described further below, we will no longer have the revenues or profits associated with that agreement available to us.

For the quarter ended March 31, 2001, research and development expense was \$306,767 as compared to \$127,439 in the first quarter of 2000. This increase is due to increased expenditures on certain development projects including CT-3 as we have been assessing potential markets and developing test plans for a Phase II study.

For the quarter ended March 31, 2001, general and administrative expense was \$681,948 as compared to \$495,678 in the first quarter of 2000. This increase is largely due to an increase in payroll costs over last year of approximately \$72,000 and a finders fee of \$120,000 incurred in conjunction with a common stock purchase agreement entered into during the first quarter 2001 with Fusion Capital Fund II, LLC pursuant to which Fusion Capital agreed to purchase up to \$6.0 million of our common stock over a 30-month period, subject to a 6-month extension or earlier termination at our discretion. The receipt of funds under this agreement will commence upon effective registration and certain other conditions which are targeted for June 2001. A material contingency that may affect our operating plans and ability to raise funds is our stock price. If our stock price remains at current levels, we will be limited in the amount of funds we will be able to draw as defined by the Fusion Capital agreement. As the Fusion Capital agreement is currently structured, we do not have a guarantee that we will be able to draw any funds. See Liquidity and Capital Resources for further details on this agreement.

For the quarter ended March 31, 2001, we had compensation expense relating to stock warrants of \$11,971 associated with warrants issued to Dian Griesel during March 2001 as partial compensation for investor relations services. Additional expense associated with these warrants will continue to be incurred over the 2 year term of the agreement. For the quarter ended March 31, 2000, we had \$990,820 of expense associated with warrants issued to Joseph Stevens & Company as partial compensation for investment banking services which was recorded in full as of December 31, 2000. Compensation expense relating to these investor relations and investment banking services represent a general and administrative expenses.

For the first quarter of 2001, interest and other income was \$20,018, compared to \$40,190 in the first quarter of 2000. The decrease in interest income is primarily due to the decline in our cash reserves.

Net income applicable to common shares for the quarter ended March 31, 2001, was \$855,631 as compared to a net loss applicable to common shares of \$2,037,561 for the quarter ended March 31, 2000. This increase in net income applicable to common shares is primarily attributable to a gain on the sale of the assets of our subsidiary, Optex recognized during the first quarter of 2001 in the amount of \$2,809,451, partially offset by a distribution to

the minority shareholders of Optex of \$767,514. (see further discussion of this sale below). In the quarter ended March 31, 2000, we recorded compensation expense of \$990,820 relating to stock warrants issued to Joseph Stevens & Co. which did not exist during the current year. Net income (loss) applicable to common shares also included a beneficial conversion on our Series B preferred stock in the amount of \$600,000 and a dividend of \$167,127 paid upon the repurchase of the outstanding Series B preferred stock recorded during the first quarter of 2001. We also issued preferred stock dividends on our Series A preferred stock for which the estimated fair value of \$64,144 and \$659,319 was included in the net income (loss) applicable to common shares for the first quarter of 2001 and 2000, respectively. The decrease in the estimated fair value of these dividends as compared to the prior year is primarily a reflection of a decline in our stock price and a reduction of the number of preferred shares issued. Going forward, with the termination of our agreement with Bausch & Lomb, we will no longer have the revenue or profits associated with that agreement available to us. For the year ended December 31, 2000, we received \$5,169,288 in development revenue from Bausch & Lomb.

LIQUIDITY AND CAPITAL RESOURCES

From inception to March 31, 2001, we incurred an accumulated deficit of \$23,306,559, and we expect to continue to incur additional losses through the year ending December 31, 2001 and for the foreseeable future. The loss has been incurred through primarily research and development activities related to our various technologies under our control.

Pursuant to an asset purchase agreement dated January 31, 2001, among Bausch & Lomb, a Bausch & Lomb affiliate, Atlantic, and Optex, on March 2, 2001, Optex sold to Bausch & Lomb substantially all its assets (mostly intangible assets with no book value), including all those related to the Catarex technology. Upon the sale, Atlantic and Optex have no further obligations to Bausch & Lomb. The purchase price was \$3 million paid at closing (approximately \$564,000 of which was distributed to the minority shareholders). In addition, Optex is entitled to receive additional consideration, namely \$1 million once Bausch & Lomb receives regulatory approval to market the Catarex device in Japan, royalties on net sales on the terms stated in the original development agreement dated May 14, 1998, between Bausch & Lomb and Optex, as amended, and minimum royalties of \$90,000, \$350,000, and \$750,000 for the first, second, and third years, respectively, starting on first commercial use of the Catarex device or January 1, 2004, whichever is earlier. Optex also has the option to repurchase the acquired assets from Bausch & Lomb if it ceases developing the Catarex technology at fair value. Upon the sale of Optex assets, Bausch & Lomb's development agreement with Optex was terminated. Upon the closing of the asset purchase agreement Optex agreed to forgo future contingent payments in exchange for the receipt of a one-time \$3 million payment and the same potential for future royalties. As a result of this transaction, we recorded a gain on the sale of Optex assets of \$2,809,451. Pursuant to our agreement with the minority shareholders of Optex, we made a profit distribution of \$767,514 representing the minority shareholders' percentage of the cumulative profit from the Bausch & Lomb cost plus 25 percent agreement up to and including proceeds from the sale of Optex' assets.

On September 28, 2000, pursuant to a convertible preferred stock and warrants purchase agreement (the purchase agreement), we issued to BH Capital Investments, L.P. and Excalibur Limited Partnership (together, the Investors) for a purchase price of \$2,000,000, 689,656 shares of our Series B convertible preferred stock (the Series B preferred stock) and warrants to purchase 134,000

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shares of our common stock. Half of the shares of Series B preferred stock (344,828 shares) and warrants to purchase half of the shares of common stock (67,000 shares) were held in escrow, along with half of the purchase price.

On December 4, 2000, Atlantic and the Investors entered into a stock repurchase agreement (the stock repurchase agreement) pursuant to which we repurchased from the Investors for \$500,000 137,930 shares of Series B preferred stock, and agreed to the release from escrow to the Investors of the \$1,000,000 purchase price of the 344,828 shares of Series B preferred stock held in escrow. We also allowed the Investors to keep all of the warrants issued under the purchase agreement and issued to the Investors warrants to purchase a further 20,000 shares of our common stock at the same exercise price. On January 19, 2001, 41,380 shares of Series B preferred stock were converted by the Investors into 236,422 shares of our common stock. On March 9, 2001, Atlantic and the Investors entered into a second stock repurchase agreement (stock repurchase agreement no. 2). Pursuant to stock repurchase agreement no. 2, we repurchased from the Investors, for an aggregate purchase price of \$617,067, all 165,518 shares of our Series B preferred stock held by the Investors. The repurchase price represented 125% of the purchase price originally paid by the investors for the repurchased shares, as well as an amount equal to the annual dividend on the

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Series B preferred stock at a rate per share of 8% of the original purchase price. The repurchased shares constitute all remaining outstanding shares of Series B preferred stock; we have cancelled those shares.

On March 16, 2001, we entered into a common stock purchase agreement with Fusion Capital Fund II, LLC pursuant to which Fusion Capital agreed to purchase up to \$6.0 million of our common stock over a 30-month period, subject to a 6-month extension or earlier termination at our discretion. The receipt of funds under this agreement will commence upon effective registration and certain other conditions which are targeted for June 2001. The selling price of the shares will be equal to the lesser of (1) \$20.00 or (2) a price based upon the future market price of the common stock, without any fixed discount to the market price. A material contingency that may affect our operating plans and ability to raise funds is our stock price. If our stock price remains at current levels, we will be limited in the amount of funds we will be able to draw as defined by the Fusion Capital agreement. As the Fusion Capital agreement is currently structured, we do not have a guarantee that we will be able to draw any funds. A \$120,000 finders fee relating to this transaction was paid to Gardner Resources, Ltd. We have amended our agreement with Fusion Capital to allow Atlantic to draw funds pursuant to the agreement regardless of its listing status on the Nasdaq SmallCap Market.

Our available working capital and capital requirements will depend upon numerous factors, including progress of our research and development programs; our progress in and the cost of ongoing and planned preclinical and clinical testing; the timing and cost of obtaining regulatory approvals; the cost of filing, prosecuting, defending, and enforcing patent claims and other intellectual property rights; competing technological and market developments; changes in our existing collaborative and licensing relationships; the resources that we devote to developing manufacturing and commercializing capabilities; technological advances; status of competitors; our ability to establish collaborative arrangements with other organizations; and our need to purchase additional capital equipment.

At March 31, 2001, we had \$2,581,497 in cash and cash equivalents and

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working capital of \$1,831,571. We anticipate that our current resources will be sufficient to finance our currently anticipated needs for operating and capital expenditures for at least the next twelve months. In addition, we will attempt to generate additional capital through a combination of collaborative agreements, strategic alliances, and equity and debt financing. However, we can give no assurance that we will be able to obtain additional capital through these sources or upon terms acceptable to us.

We have the following short term and long term liquidity needs. Our cash utilized for operations for the next year is expected to be approximately \$200,000 per month. Currently, these expected operating expenses include approximately \$70,000 per month for research and pre-clinical development expenses and approximately \$130,000 for general and administrative expenses. Based on our cash position of \$2,581,497 at March 31, 2001, we will either have to raise additional funds within the next twelve months to fund our current spending requirements or we will have to reduce or eliminate the planned levels of development activities. Since we do not have significant fixed cash commitments, we have the option of significantly cutting or delaying our development activities as may be necessary. To meet these needs in the short term, we expect to begin drawing funds in the amount of \$200,000 per month from Fusion Capital starting in June 2001, once we have an effective registration. If our agreement with Fusion Capital is not finalized, or if we are unable to draw funds from Fusion Capital, we will seek alternative funding sources. These funding sources include seeking other equity financing and working toward licensing CT-3 later in 2001.

A material contingency that may affect our operating plans and ability to raise funds is our stock price. If our stock price remains at current levels, we will be limited in the amount of funds we will be able to draw as defined to the Fusion Capital agreement. As the Fusion Capital agreement is currently structured, we do not have a guarantee that we will be able to draw any funds.

We are at risk of being delisted from the Nasdaq SmallCap Market. As of March 20, 2001, we had the thirtieth consecutive business day that the minimum bid price of our common stock was less than \$1.00. This constitutes a failure on our part to meet Nasdaq's continued inclusion requirement for minimum bid price. On March 22, 2001, Nasdaq notified us of this failure, and we have a period of 90 calendar days from that notice to comply with the continued inclusion standard for minimum bid price. We can do so by meeting the standard for a minimum of 10 consecutive business days during the 90 day compliance period.

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In addition, the consolidated financial statements included with our 2000 Annual Report on Form 10-KSB for the year ended December 31, 2000, show that on December 31, 2000, our net tangible assets were less than \$2 million. Consequently, we received a deficiency notice from Nasdaq notifying us that we had ten days to submit a plan to achieve and sustain long-term compliance with all applicable listing criteria. On May 2, 2001, we submitted our plan to Nasdaq. If Nasdaq is not satisfied with the plan that we submitted, we will then receive a staff determination from Nasdaq. Upon receipt of the staff determination, we will have seven days to appeal the staff determination and request a hearing before Nasdaq's Listing Qualifications Panel, and such a request will generally stay the delisting pending a determination by the panel (called a "panel decision"). Failure to request a hearing within seven calendar days will result in automatic delisting. If our securities were delisted, it could materially and adversely affect our ability to raise additional funding.

RESEARCH AND DEVELOPMENT ACTIVITIES

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For a description of Atlantic's research and development activities, see Item 5 of Part II entitled "Other Information."

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PART II -- OTHER INFORMATION

Item 1. Legal Matters

Claim for Arbitration Brought by Cleveland Clinic Foundation

Atlantic's subsidiary, Gemini, has an exclusive worldwide sublicense from the Cleveland Clinic Foundation to a U.S. patent and related patent applications, as well as corresponding foreign applications, relating to 2-5A chimeric antisense technology and its use for selective degradation of targeted RNA. On May 8, 2000, the Cleveland Clinic Foundation filed a claim for arbitration before the American Arbitration Association to terminate this sublicense, claiming that Gemini has breached the sublicense by failing to fulfill its obligations under the sublicense. Pursuant to an asset purchase agreement dated April 23, 2001, among the Cleveland Clinic Foundation and its new affiliate IFN, Inc., Atlantic and Gemini, Gemini has agreed to sell to IFN substantially all its assets (mostly intangible assets with no book value), including all those related to the 2-5A antisense enhancing technology in the second quarter of 2001. Upon the closing of this transaction, which we expect will occur in May 2001, the Cleveland Clinic will withdraw its outstanding arbitration demand against Gemini and Atlantic, with prejudice, and each party will be obligated to pay its own costs and attorney's fees related thereto. For additional information, please see Item 5 under the subheading "Gemini and the 2-5A Antisense Technology."

Item 2. Changes in Securities

Recent Sales of Unregistered Securities

Issuance to BH Capital Investments, L.P. and Excalibur Limited Partnership

On September 28, 2000, pursuant to a convertible preferred stock and warrants purchase agreement (the "purchase agreement"), we issued to BH Capital Investments, L.P. and Excalibur Limited Partnership (together, the "Investors") for a purchase price of \$2,000,000, 689,656 shares of our Series B convertible preferred stock (the "Series B preferred stock") and warrants to purchase 134,000 shares of our common stock. Half of the shares of Series B preferred stock (344,828 shares) and warrants to purchase half of the shares of common stock (67,000 shares) were held in escrow, along with half of the purchase price.

On December 4, 2000, Atlantic and the Investors entered into a stock repurchase agreement (the "stock repurchase agreement") pursuant to which we repurchased from the Investors for \$500,000 137,930 shares of Series B preferred stock, and agreed to the release from escrow to the Investors of the \$1,000,000 purchase price of the 344,828 shares of Series B preferred stock held in escrow. We also allowed the Investors to keep all of the warrants issued under the purchase agreement and issued to the Investors warrants to purchase a further 20,000 shares of our common stock at the same exercise price.

The issuance of the shares of Series B preferred stock and warrants did not involve any public offering and therefore was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

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The warrants are exercisable at the fixed exercise price or 110% of the market price 180 days after the date of issuance, whichever is lower. Pursuant to a second amendment to the purchase agreement, executed on January 9, 2001, the fixed exercise price of the warrants was lowered from \$3.19, the fixed exercise price upon their issuance, to \$1.00, the market price of our common stock at the time of the renegotiations. Each warrant may be exercised any time during the five years from the date of granting. The warrants may not be exercised if doing so would result in our issuing a number of shares of common stock in excess of the limit imposed by the rules of the Nasdaq SmallCap Market.

Holder of shares of our outstanding Series B preferred stock can convert each share into shares of common stock without paying Atlantic any cash. The conversion price per share of the Series B preferred stock was also amended by the second amendment to the purchase agreement. The conversion price per share of Series B preferred stock on any given day is the lower of (1) \$1.00 or (2) 90% of the average of the two lowest closing bid prices on the principal market of the common stock out of the fifteen trading days immediately prior to conversion.

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On March 9, 2001, Atlantic and the Investors entered into stock repurchase agreement no. 2. Pursuant to stock repurchase agreement no. 2, we repurchased from the Investors, for an aggregate purchase price of \$617,067, all 165,518 shares of our Series B preferred stock held by the Investors. The repurchase price represented 125% of the purchase price originally paid by the investors for the repurchased shares, as well as an amount equal to the annual dividend on the Series B preferred stock at a rate per share of 8% of the original purchase price. The repurchased shares constitute all remaining outstanding shares of Series B preferred stock; we have cancelled those shares.

Issuance to Dian Griesel

On March 8, 2001, Atlantic entered into an agreement with The Investor Relations Group, Inc., or "IRG," under which IRG will provide Atlantic investor relations services. Pursuant to this agreement Atlantic issued to Dian Griesel warrants to purchase 120,000 shares of its common stock. The term of the warrants is five years and the exercise price of the warrants is \$0.875, and they will vest in 5,000 share monthly increments over a 24 month period. In addition, should Atlantic's stock price reach \$2.50, Atlantic will grant Ms. Griesel an additional 50,000 warrants. Should Atlantic's stock price reach \$5.00, Atlantic will grant Ms. Griesel a further 50,000 warrants. As a result, Atlantic recorded compensation expense relating to these stock warrants of \$11,971 for the three month period ended March 31, 2001 and will remeasure the compensation expense at the end of each reporting period until the final measurement date is reached in 24 months.

The issuance of the warrants did not involve any public offering and therefore was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

Item 5. Other Information

Research and Development Activities

Optex and the Catarex Technology

Our majority-owned (81.2%) subsidiary, Optex, is entitled to royalties

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and other revenues in connection with commercialization of Catarex technology. Bausch & Lomb, a multinational ophthalmics company, is developing this technology to overcome the limitations and deficiencies of traditional cataract extraction techniques. Optex had been the owner of this technology, and was developing it pursuant to a development agreement with Bausch & Lomb, but on March 2, 2001, Optex sold to Bausch & Lomb substantially all of its assets (mostly intangible assets with no book value), including those related to the Catarex technology.

CT-3

Atlantic is developing CT-3, a synthetic derivative of the major active ingredient in marijuana, for use in the treatment of inflammation and pain and other indications.

Background

There has been much publicity regarding whether patients are adequately treated for acute and chronic pain. This is due, in part, to the significant side effects of the more common drugs used to treat pain.

Acute pain encompasses such medical conditions as post-operative pain, as well as pain from acute injuries. Chronic pain covers a broad range of conditions, including headaches, cancer pain, arthritis pain, low back pain, neuropathic pain, and psychogenic pain. Although difficult to quantify, it is estimated that roughly 130 million people suffer from chronic pain in the U.S. alone, with about 3 million new diagnoses of chronic pain per year.

The single biggest cause of chronic pain is arthritis. An estimated 40 million people in the U.S. suffer from arthritis, as do an equal number in Europe. Osteoarthritis is the more common form, and 60% of its victims are women. Half of those suffering from osteoarthritis are under the age of 65. The number of people with osteoarthritis is expected to double by 2020 as the number of elderly people continues to grow.

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A more debilitating form of arthritis is rheumatoid arthritis, affecting about 2.5 million people. Chronic pain and inflammation management are critical in this patient segment. Cancer pain is another market, with about 1 million new diagnoses of cancer per year, a majority of them requiring pain management.

Other causes of chronic pain are fibromyalgia (a connective tissue disorder causing pain affecting approximately 5 million people), and peripheral neuropathy.

Currently available analgesic (anti-pain) and anti-inflammatory drugs include narcotics, non-narcotic analgesics, corticosteroids and nonsteroidal anti-inflammatory drugs, or "NSAIDs." Although highly effective as analgesics, the usefulness of narcotics is limited by significant adverse effects, including their potential to cause addiction. In contrast, non-narcotic analgesics are safer but, due to their low potency, have limited usefulness in cases of severe chronic pain. Use of corticosteroids, which are highly effective as anti-inflammatory agents, is limited by their potentially significant side effects. Traditional NSAIDs, such as aspirin, ibuprofen and indomethacin, are generally safer than corticosteroids for long-term use, but they too can cause significant side effects when used chronically. While the newer NSAIDs categorized as COX-2 inhibitors, for example Celebrex (developed by G.D. Searle

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& Co.) and Vioxx (developed by Merck & Co.), are potentially less prone to cause ulcers than are traditional NSAIDs, they do not appear to be more effective for the relief of pain or inflammation.

Although a major focus of pharmaceutical research for many years has been the development of safe, powerful anti-inflammatory and analgesic drugs with minimal adverse side effects, no such universally safe and efficacious drug has been developed. A variety of compounds are in preclinical and early clinical development, but it is not evident that an acceptable combination of efficacy and safety has yet been achieved.

In addition to the many pharmacological products, various alternative treatments have been utilized due to the continued need for additional types of pain management. The FDA estimated that there are approximately 9-12 million visits per year for acupuncture treatment of chronic pain. In addition, various herbs and nutritional supplements claim to relieve pain. Modified diets and various relaxation techniques have been utilized by some patients, seeking relief from their pain. Other devices, such as implanted opioid pumps, are marketed for chronic pain. This indicates that there is a continued need for alternative treatments to relieve pain.

The CT-3 Technology and Its Applications

We have proprietary rights to a group of compounds, one of which is currently designated "CT-3." CT-3 is a synthetic derivative of (DELTA)9 tetrahydrocannabinol (THC), the major active ingredient of marijuana. It was designed to maximize the potent efficacious medicinal properties of marijuana without producing its undesirable psychotropic side effects. Based upon the broad anti-inflammatory and analgesic properties exhibited in preclinical studies, we believe that this group of compounds may be useful in the treatment of inflammation and pain, as well as several other indications, including musculoskeletal disorders, neurological disorders, cancer, glaucoma, and gastrointestinal disorders. We also believe, based on preclinical studies and an initial phase I human clinical trial, that this group of compounds has a reduced potential for side effects.

Animal studies have shown that CT-3 lacks the ulcer causing side effects of NSAIDs. Animal studies using dosages significantly higher than the anticipated therapeutic dose of CT-3 have indicated a lack of central nervous system side effects (psychoactivity), and we believe that CT-3 provides anti-inflammatory and analgesic effects without the psychoactive effects of THC. Also, a clinical trial designed to measure the safety and pharmacokinetics of CT-3 resulted in no clinically relevant-adverse events and no evidence of marijuana-like psychoactivity. Several in vitro studies have indicated that CT-3 acts by inhibiting and reducing the release or synthesis of several different mediators of inflammation including cytokines, metalloproteinases, leukotrienes, and cyclooxygenases. In addition, tests in an in vivo model of rheumatoid arthritis have shown CT-3 to have significant anti-inflammatory effects, including the potential to reduce the amount of joint destruction caused by rheumatism. Subsequent studies have substantiated these findings and have demonstrated that CT-3 can minimize the effects of adjuvant-induced arthritis in rats. We also believe that it is not yet known whether this compound is more clinically effective than traditional NSAIDs, corticosteroids, COX-2 inhibitors and the variety of potential competitor compounds in late preclinical and early clinical development. The preliminary data therefore suggest that CT-3 appears to have significant potential for therapeutic benefit in the treatment of chronic pain and inflammation that potentially lacks the major side effects of traditional anti-inflammatory drugs and analgesics.

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Research and Development Activities

Atlantic is developing CT-3 as the lead compound in the series of patented compounds. CT-3 has been tested in a Phase I clinical trial and in many pre-clinical in vitro and in vivo studies to profile its potential activity and to evaluate its usefulness in treating medical conditions. This evaluation process started with a focus on analgesic and anti-inflammatory processes and has been broadened to include musculoskeletal disorders, neurological disorders, gastrointestinal disorders, psychiatric disorders, glaucoma, and cancer.

In 2000 we successfully filed an investigational new drug (IND) application with the FDA for CT-3 and signed a contract with Aster Clinical Research Center in Paris, France, to conduct the Phase I clinical trial. The clinical trial was designed to measure the safety and pharmacokinetics of CT-3 in human subjects. As expected, the Phase I clinical trial was successfully completed and showed that CT-3 was safe. There occurred no clinically-relevant adverse events and no evidence of marijuana-like psychoactivity was found.

After completing the Phase I clinical trial, we increased our efforts to sublicense CT-3 to suitable strategic partners to assist in clinical development, regulatory approval filing, manufacturing and marketing of CT-3. We anticipate that by the fourth quarter of 2001 we will have found a corporate partner to continue the clinical development of CT-3. In addition, we are considering conducting a Phase II clinical trial ourselves. Since CT-3 appears to possess a wide range of therapeutic activity, we are carefully choosing an indication that we feel CT-3 would be most efficacious for and one that will strategically allow us to increase the licensing value of CT-3 in the most timely and cost effective manner.

In addition, in the fourth quarter of 2000, the U.S. Patent and Trademark Office issued us a new US patent 6,162,829 that covers the use of analogs of CT-3 as analgesic or anti-inflammatory agents.

Competition

The market for the treatment of chronic pain and inflammation is large and highly competitive. Several multinational pharmaceutical companies currently have many popular products in this market and many companies have active research programs to identify and develop more potent and safer anti-inflammatory and analgesic agents. One notable area of research is in the development of "COX-2 inhibitors," which are claimed to be safer to the stomach than available NSAIDs. (COX-2 inhibition is not considered a significant contributor to the mechanism of action of CT-3; in vitro studies have shown very weak COX-2 inhibition.) Two COX-2 inhibitor compounds have recently received FDA approval and several others are in various stages of clinical development. We believe that the potential advantages of CT-3 make it worth developing, and that if we succeed, CT-3 could become a significant new agent in the treatment of pain and inflammation.

Proprietary Rights

We have an exclusive worldwide license to four U.S. patents and corresponding foreign applications covering a group of compounds, including CT-3. The licensor is Dr. Sumner Burstein, a professor at the University of Massachusetts. This license extends until the expiration of the underlying patent rights. The primary U.S. patent expires in 2012 and the new analog patent 6,162,829 expires in 2017. We have the right under this license to sublicense our rights under the license. The license requires that we pay royalties to Dr. Burstein based on sales of products and processes incorporating technology licensed under the license, as well as a percentage of any income derived from

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any sublicense of the licensed technology. Furthermore, pursuant to the terms of the license, we must satisfy certain other terms and conditions in order to retain the license rights. If we fail to comply with certain terms of the license, our license rights under the license could be terminated.

Gemini and the 2-5A Antisense Technology

An asset purchase agreement dated April 23, 2001, among Atlantic, Atlantic's majority-owned subsidiary Gemini Technologies, Inc., the Cleveland Clinic Foundation, or "CCF," and CCF's affiliate IFN, Inc., was signed, in which Gemini will sell to IFN substantially all its assets, including all those related to the 2-5A antisense enhancing technology. The transaction is expected to close in the second quarter of 2001. The closing is subject to closing conditions standard for a transaction of this kind.

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The Cleveland Clinic Sublicense

In May 1994 Gemini obtained an exclusive worldwide sublicense from CCF to a U.S. patent and related patent applications, as well as corresponding foreign applications, relating to 2-5A Chimeric Antisense Technology and its use for selective degradation of targeted RNA. (That sublicense is referred to as the "CCF sublicense.") The rights exclusively licensed to Gemini included rights obtained by CCF through an interinstitutional agreement with the National Institutes of Health, or "NIH," the co-owner of the patent rights. The term of the CCF sublicense was until expiration of the underlying patent rights, and under the CCF sublicense Gemini was required to pay to CCF as royalties 40 percent of income from sales of products and processes incorporating the licensed technology. Gemini had to satisfy other requirements in order to retain its license rights under the CCF Sublicense. For one thing, it was required to take effective steps to achieve practical application of the sublicensed technology. Failure by CCF to discharge its obligations to the NIH under the interinstitutional agreement could have resulted in termination of the interinstitutional agreement and, in turn, our access to the technology.

Research and Development Activities Through 1999

Gemini conducted research at its own laboratory facilities and sponsored research at the NIH and CCF focusing on two main objectives: (1) advancing basic research into the 2-5A technology, with a view to making 2-5A cheaper to synthesize and increasing its clinical utility and (2) developing a potential lead product candidate to demonstrate 2-5A's clinical utility. Research has to date been conducted primarily in in vitro systems and has included studies of infectious diseases (respiratory syncytial virus, or "RSV," herpes, and human immunodeficiency virus, or "HIV"), certain cancers (chronic myelogenous leukemia, glioblastoma), conditions modulated by 5-alpha reductase and dihydrotestosterone receptors (acne and androgenic alopecia), and aspects of the interferon pathway that are mediated by PKR (a protein kinase enzyme).

Based on these data, Gemini decided initially to focus more of its efforts on studies of RSV and telomerase, an enzyme believed to be critical for the growth and survival of some cancers. Data collected to date indicate that the molecule to be tested had greater in vitro potency than Ribavirin, an FDA-approved treatment for RSV infections; these data were published in the Proceedings of the National Academy of Sciences, a peer-review research journal. This molecule has also been shown to be stable against degradative enzymes and capable of being absorbed into lung tissue when administered in a droplet formulation. Gemini concluded that the next step in development would be to

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conduct an in vivo proof-of-principle study, preferably in primates. It began exploring optimal manufacturing processes to produce sufficient quantities needed in an in vivo study, and anticipated, but could give no assurance, that such a study would establish proof-of-efficacy in primates. Further in vivo studies would likely be necessary to firmly establish optimal dosing regimens.

Gemini believed that focusing its antisense program on a lead target like primate-oriented RSV would allow it to demonstrate the clinical utility of the 2-5A and enable it to more effectively pursue corporate partnerships to further develop the technology. If it could complete such a partnership, the research and development of the technology could have been expanded into some of the aforementioned and additional areas of potential clinical use.

The lead compound against telomerase demonstrated convincing proof-of-concept in a limited in vivo (nude mice) model where human glioblastoma (the most common form of primary brain cancer) cells were transplanted into the animals. The data were subsequently published in *Oncogene*, a peer-review journal dedicated to cancer research. However, the development status of using of 2-5A against the telomerase target was well behind that of using it against RSV.

Deteriorating Relations with the Cleveland Clinic

In 1999, after a change in management subsequent to a consent solicitation process conducted by members of our current board of directors, our new management team led by A. Joseph Rudick began critically assessing our technology portfolio, including 2-5A, with a view to increasing the profitability or cost effectiveness of each project without sacrificing quality or speed of development.

Dr. Rudick met with CCF in September 1999 to discuss the status of the 2-5A development project. At that time, and in a letter sent the following month, CCF formally informed us that in its view Gemini had not performed its obligations under the terms of the Cleveland sublicense. In its letter, CCF demanded that Atlantic and Gemini

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either (1) take prompt action to cure their alleged defaults; (2) relinquish control of the technology and return all rights to CCF, or (3) renegotiate the terms of the sublicense, limiting Gemini's control of the 2-5A technology and return some of the rights to CCF. In response, Atlantic informed CCF that Gemini would attempt to cure its alleged defaults, and as a first step would immediately hold a meeting of Gemini's Scientific Advisory Board as requested by CCF. In addition, Atlantic continued to press both CCF and the NIH to comply with the provisions of the Cleveland sublicense that required both CCF and the NIH to sublicense to Gemini several method-of-use improvement patents for using 2-5A for the treatment of RSV and telomerase.

Atlantic then hired Hoyle Consulting, Inc., a Frederick, Maryland-based regulatory consulting and clinical management consulting firm to independently assess the all aspects of 2-5A development activities to date and prepare a project plan for developing 2-5A for the treatment of RSV. A project plan represents a standard first step in drug development and gives management the information necessary to determine whether to proceed with a project or terminate it.

After attending a meeting of Gemini's Scientific Advisory Board in November 1999, Hoyle began preparing the project plan for 2-5A. Hoyle's first task was to investigate the operational details and costs of making the 2-5A

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drug substance in bulk. Hoyle received a quotation of \$5,500 per gram to manufacture the 2-5A drug substance, and on that basis determined that performing a 28-day repeated dose toxicity study of 2-5A in dogs, one of the most basic pre-clinical studies required by the FDA for an Investigational New Drug, or "IND," application, would require approximately 400 grams of the drug at a cost of \$2.2 million. Moreover, since Gemini proposed to develop 2-5A to be administered in aerosolized route of administration form (by inhalation, not intranasal), the FDA could require that the dog toxicity studies be conducted by multiple routes of administration, requiring both inhalation and intravenous toxicity studies, which would require a greater quantity of the drug. Additional quantities would be required for rat toxicology studies, pharmacokinetic studies in both species used for the toxicity studies, formulation research, methods development, and clinical trial supplies. In short, Hoyle concluded that the high cost of obtaining the 2-5A drug substance in bulk raised serious concerns about the continued economic viability of the 2-5A project.

We found Hoyle's concerns to be warranted, and we conveyed them CCF by letter in January 2000. We further noted that Gemini had spent over \$3 million developing the 2-5A drug, thereby enabling it to be brought through an initial proof-of-principle primate study, and that we were also concerned that we might be infringing certain patents, thereby making our investment in 2-5A potentially more risky and costly. Accordingly, we expressed our desire to explore various options with CCF with regard to amending the Cleveland sublicense or terminating it in return for appropriate compensation, given the value Gemini had added.

In a letter dated April 2000, CCF responded to Dr. Rudick's overture by claiming that CCF considered Gemini's license to be terminated. CCF requested that Gemini acknowledge that the sublicense was terminated and that Atlantic and Gemini release CCF from any claims. CCF also threatened to resort to arbitration to terminate the sublicense.

On May 5, 2000, Dr. Rudick, now Atlantic's CEO and Gemini's President, and Fred Zotos, Atlantic's newly appointed President flew to CCF's attorney's offices in Cleveland, Ohio, in an attempt to reach an agreement on returning the Cleveland sublicense while avoiding the cost of arbitration. The parties could not, however, agree upon terms.

Cleveland Clinic Files Arbitration Demand

On May 8, 2000, CCF filed a claim for arbitration before the American Arbitration Association to terminate the Cleveland sublicense, claiming that we had breached the sublicense by failing to fulfill our obligations. More specifically, CCF's claims included the following alleged breaches:

- (a) Gemini failed to adequately fund and otherwise advance and pursue development of the 2-5A technology.
- (b) Gemini failed to adequately staff the research team assigned to develop the 2-5A technology.
- (c) Gemini failed to provide specific benchmarks, established in consultation with the Scientific Advisory Board, outlining all research and development for the 2-5A technology.
- (d) Gemini failed to provide adequate annual financial statements on a regular and timely basis.
- (e) Gemini failed to exercise diligence in developing the technology.

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- (f) Gemini failed to establish a Cleveland-based business as opposed to a Cleveland research facility.

In its response, Gemini denied each of these allegations. More specifically, Gemini's views as to each allegation were, respectively, as follows:

- (a) Gemini had adequately funded and otherwise advanced development of the 2-5A technology. Since entering into the Cleveland sublicense in 1994, Gemini had expended approximately \$3,964,829 developing the 2-5A technology, of which approximately \$540,000 went to CCF and \$414,521 went to the NIH for sponsored research, \$285,330 was spent on patent prosecution fees, and \$130,839 went to CCF employees acting as consultants. These expenditures do not include any general and administrative expenses incurred by Atlantic in overseeing development of the 2-5A technology over the seven-year period of the sublicense. The remainder of these expenditures were spent on staffing, equipping, and operating the Gemini lab facility in Cleveland, Ohio.
- (b) Gemini had adequately staffed the research team assigned to the development of the 2-5A technology. Gemini's research staff included a Scientific Director, two full-time research chemists, and a full-time and a part-time research biologist. In addition, Gemini had scientific consulting agreements with two CCF employees, an Atlantic employee was President of Gemini, an Atlantic employee served half-time as Gemini's Vice-President of Business Development and Licensing, and Atlantic hired Hoyle Consulting, Inc., to coordinate the 2-5A clinical development program.
- (c) For each of the last three years Gemini had provided specific benchmarks in the form of a detailed commercial development plan. These benchmarks were established in consultation with the Scientific Advisory Board at regular meetings of the board, and outlined all research and development for the 2-5A technology.
- (d) Gemini's financial statements were consolidated with Atlantic's, which are publicly available. Moreover, throughout this period Gemini did not have any earnings to report and did not owe CCF any royalties.
- (e) Any assessment of how diligent Gemini was in developing the technology must take into account that the antisense technology in general, and the 2-5A antisense enhancement technology in particular, are still experimental and involve development, targeting, and testing of extremely challenging molecules. One indication of this is that only one antisense product, Vitravene by Novartis/Isis, has received FDA approval, in 1998, even though Isis was incorporated in 1989 and the antisense field is now over twenty years old.
- (f) Gemini established in Cleveland, Ohio, a 1400-sq.-ft. laboratory containing a fully equipped biosafety-level-2 cell culture facility and adjoining office space. This space supported four full-time and one-part-time research scientists and the two CCF consultants. And while Gemini acknowledged that Atlantic employees managed some Gemini-related matters at its offices in New York, New York, the Cleveland sublicense

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did not specifically require that Gemini establish a Cleveland based business, as opposed to a Cleveland based research facility.

In light of Gemini's observations regarding CCF's arbitration claims, Gemini determined that CCF's claims were without merit and intended to vigorously defend the action instead of forfeiting the Cleveland sublicense without compensation for the value added by Gemini's contribution to development of the 2-5A technology.

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Gemini's Continued Development of 2-5A Antisense

Despite the initiation of the arbitration, Gemini elected to continue developing the 2-5A technology rather than risk having any cessation of development activities be held to be a breach of the Cleveland sublicense. Accordingly, Gemini continued to seek a Small Business Innovation Research, or "SBIR," phase II research grant to allow it to conduct pre-clinical efficacy studies of 2-5A in primates.

On August 14, 2000, Gemini was awarded a \$750,000 SBIR phase II grant by the National Institute for Allergy and Infectious Diseases, or "NIAID," a unit of the NIH. Gemini intended to use the grant to fund a pre-clinical efficacy study using aerosolized 2-5A to inhibit RSV in monkeys, as well as the toxicological and pharmacological studies Gemini would need in order to file an IND application with the FDA to begin clinical studies in humans. The goals of the two-year research plan were as follows:

- o to improve upon the synthesis and purification procedures required for efficient scale-up production of the lead 2-5A compound;
- o to develop methodologies for aerosolized delivery of 2-5A to the lungs;
- o to carry the lead 2-5A compound through definitive pre-clinical animal efficacy studies;
- o to develop methodologies for analyzing 2-5A integrity in nasal passages, bronchial lavages and serum of treated animals; and
- o to perform preliminary toxicology and pharmacokinetic studies on 2-5A in preparation for an IND filing leading to Phase I clinical trials.

Efforts to Settle the Arbitration

Shortly after filing its demand for arbitration, CCF appointed a new director of its Innovations unit, which managed the Cleveland sublicense with Gemini. This, together with Gemini's receipt of the SBIR grant, led Atlantic and Gemini to approach CCF again with a view to settling the arbitration. Gemini proposed that it continue to develop 2-5A with the aim at using the SBIR-grant-funded primate efficacy trial to reduce overall 2-5A dosage costs by improving both drug delivery through an aerosolized formulation and decreasing drug costs by refining the chemical process. If successful, in addition to providing in vivo proof of efficacy, the study would reduce the overall 2-5A dosage costs to a more acceptable level. This would have made 2-5A a more attractive licensing opportunity for a corporate partner. In any event, Gemini

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realized that it would be next to impossible to sublicense its rights to another party as long as its rights under the Cleveland sublicense were the subject of an arbitration. A further obstacle to licensing 2-5A to a corporate partner was the fact that Gemini did not have a sublicense from CCF and the NIH to the method of use patent for 2-5A for RSV, as required by the Cleveland sublicense.

Accordingly, through late 2000 and early 2001 the parties made efforts to arrive at a settlement. To that end, Gemini held a meeting of its Scientific Advisory Board in November 2000 and invited the representatives of CCF to participate as observers. Based upon development goals agreed upon at this meeting, Gemini formulated a revised development plan.

In February 2001, CCF forwarded a formal settlement offer to Gemini outlining its numerous conditions for settlement based upon continuing the Cleveland sublicense with Gemini. These settlement demands required that Gemini dramatically increase expenditures, personnel, and development efforts on the 2-5A project well above their historic levels. These settlement terms did not attempt to make any such increased investment more attractive to Gemini by increasing Gemini's share of royalties (CCF would still have received 40% of any sublicensing income and owned 7.5% of Gemini's stock), and did not provide for CCF and the NIH to sublicense to Gemini the method of use patents as required by the Cleveland sublicense. Moreover, Gemini learned, based on estimates quoted, that 2-5A manufacturing costs had doubled over the previous year to \$11,000 per gram. Finally, Gemini was still concerned about potential patent infringement as a result of practicing the 2-5A technology. Taken together, these factors led Gemini to reject CCF's settlement offer and resulted in Gemini's offer to CCF that it instead purchase Gemini's assets. CCF accepted this offer.

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Asset Purchase Agreement and Arbitration Settlement

The purchase price is an amount equal to 20 percent of all amounts that CCF is entitled pursuant to the Cleveland sublicense, subject to adjustments. The purchase price will be reduced by 1 percent of the sublicense fees for each \$150,000 expended by IFN to develop the technology, subject to a floor of 5 percent. In addition, upon closing CCF will withdraw its outstanding arbitration demand against Gemini and Atlantic, with prejudice, and each party will be obligated to pay its own costs and attorneys' fees related thereto.

We feel that this solution, if consummated, will represent a satisfactory alternative to two undesirable alternatives, namely (1) termination of the Cleveland sublicense with no compensation to Gemini and substantial shutdown costs and (2) continued development of 2-5A at levels that Gemini would not be able to justify or sustain.

Our Diversification Strategy

Early in 2000 we adopted a broader approach in selecting technologies to develop. Consistent with this approach, effective March 21, 2000, Atlantic's name was changed from "Atlantic Pharmaceuticals, Inc." to its current name.

This broader approach is reflected in our acquisition on May 12, 2000, of an ownership interest in TeraComm Research, Inc., a privately-held company that is currently developing next-generation fiber optic communications technologies, namely a high-speed fiber-optic transceiver.

The purchase price for our ownership interest was \$5 million in cash, 200,000 shares of our common stock and a warrant to purchase 200,000 shares of

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our common stock. TeraComm issued us 1,400 shares of its Series A preferred stock representing a 35% ownership interest. Taking into account the cash purchase price and the value of the common stock at the signing of the letter of intent, we valued this deal at \$6,795,000. We are accounting for the investment in TeraComm in accordance with the equity method of accounting for investments since we have the ability to exert significant influence over TeraComm, including through our Board representation and other involvement with management of TeraCom.

TeraComm is developing a fiberoptic transmitter that uses a high-temperature superconductor (HTS) material to switch a laser beam on and off with a high-speed electronic digital signal. HTS materials have zero electrical resistance at low temperatures (<70 K), and also can have very high optical reflectance in their superconducting state while they can transmit light in their normal (non-superconducting) state. TeraComm discovered that a small electric current in an HTS material could switch the material between states, and do so very quickly--in less than a millionth millionth of a second. Because the HTS optical switch works best at far infrared wavelengths and these optical waves are too large to send through an optical fiber, the TeraComm invention employs an optical wavelength converter to change the waves to the band that is just right for the fiber.

Thus far, TeraComm has successfully developed methods of producing effective HTS thin-films with metal electrodes, has successfully demonstrated control of optical transmission in HTS films using electric current, and has been awarded patents covering implementation of this technology for fiberoptic telecommunications. TeraComm has not yet achieved the technical milestone that it needs to achieve for further progress in developing their technology. TeraComm has informed us that it is seeking to raise additional funding to continue its development program and achieve this technical milestone.

Due to our need to preserve our cash resources and due to our uncertainty regarding TeraComm's plans for developing its technology, we ultimately paid only \$1 million of the \$5 million cash portion of the purchase price. As a consequence, we were required to surrender to TeraComm a number of our shares of TeraComm's preferred stock, which had the effect of reducing to 14.4% our actual ownership interest. However, Atlantic continues to hold one seat on the Board of Directors and therefore continues to have the ability to exert significant influence.

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Item 6: Exhibits and Reports on Form 8-K

Exhibits

The following documents are referenced or included in this report.

Exhibit No.	Description
3.1(1)	Certificate of Incorporation of Atlantic, as amended to date.
3.2(1)	Bylaws of Atlantic, as amended to date.
3.3(5)	Certificate of Designations of Series A Convertible Preferred Stock.
3.4(6)	Certificate of Increase of Series A Convertible Preferred Stock.

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- 3.5(9) Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock of Atlantic, filed on September 28, 2000.
- 3. 6(9) Certificate of Amendment of the Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock of Atlantic, filed on November 17, 2000.
- 3.7(10) Certificate of Amendment of the Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock of Atlantic, filed on January 9, 2001.
- 3.8(10) Certificate of Amendment of the Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock of Atlantic, filed on January 19, 2001.
- 4.2(1) Form of Unit certificate.
- 4.3(1) Specimen Common Stock certificate.
- 4.4(1) Form of Redeemable Warrant certificate.
- 4.5(1) Form of Redeemable Warrant Agreement by and between Atlantic and Continental Stock Transfer & Trust Company.
- 4.6(1) Form of Underwriter's Warrant certificate.
- 4.7(1) Form of Underwriter's Warrant Agreement by and between Atlantic and Joseph Stevens & Company, L.P.
- 4.8(1) Form of Subscription Agreement by and between Atlantic and the Selling Stockholders.
- 4.9(1) Form of Bridge Note.
- 4.10(1) Form of Bridge Warrant.
- 4.11(2) Investors' Rights Agreement by and among Atlantic, Dreyfus Growth and Value Funds, Inc. and Premier Strategic Growth Fund.
- 4.12(2) Common Stock Purchase Agreement by and among Atlantic, Dreyfus Growth and Value Funds, Inc. and Premier Strategic Growth Fund.
- 10.2(1) Employment Agreement dated July 7, 1995, between Atlantic and Jon D. Lindjord.
- 10.3(1) Employment Agreement dated September 21, 1995, between Atlantic and Dr. Stephen R. Miller.
- 10.4(1) Employment Agreement dated September 21, 1995, between Atlantic and Margaret A. Schalk.
- 10.5(1) Letter Agreement dated August 31, 1995, between Atlantic and Dr. H. Lawrence Shaw.
- 10.6(1) Consulting Agreement dated January 1, 1994, between Atlantic and John K. A. Prendergast.

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- 10.8(1) Investors' Rights Agreement dated July 1995, between Atlantic, Dr. Lindsay A. Rosenwald and VentureTek, L.P.
- 10.9(1) License and Assignment Agreement dated March 25, 1994, between Optex Ophthalmologics, Inc., certain inventors and NeoMedix Corporation, as amended.
- 10.10(1) License Agreement dated May 5, 1994, between Gemini Gene Therapies, Inc. and the Cleveland Clinic Foundation.
- 10.11(1)+ License Agreement dated June 16, 1994, between Channel Therapeutics, Inc., the University of Pennsylvania and certain inventors, as amended.
- 10.12(1)+ License Agreement dated March 28, 1994, between Channel Therapeutics, Inc. and Dr. Sumner Burstein.
- 10.13(1) Form of Financial Advisory and Consulting Agreement by and between Atlantic and Joseph Stevens & Company, L.P.
- 10.14(1) Employment Agreement dated November 3, 1995, between Atlantic and Shimshon Mizrachi.
- 10.15(3) Financial Advisory Agreement between Atlantic and Paramount dated September 4, 1996 (effective date of April 15, 1996).
- 10.16(3) Financial agreement between Atlantic, Paramount and UI USA dated June 23, 1996.
- 10.17(3) Consultancy agreement between Atlantic and Dr. Yuichi Iwaki dated July 31, 1996.
- 10.18(3) 1995 stock option plan, as amended.
- 10.19(3) Warrant issued to an employee of Paramount Capital, LLC to purchase 25,000 shares of Common Stock of Atlantic.
- 10.20(3) Warrant issued to an employee of Paramount Capital, LLC to purchase 25,000 shares of Common Stock of Atlantic.
- 10.21(3) Warrant issued to an employee of Paramount Capital, LLC to purchase 12,500 shares of Common Stock of Atlantic.
- 10.22(4) Letter Agreement between Atlantic and Paramount Capital, Inc. dated February 26, 1997.
- 10.23(4) Agreement and Plan of Reorganization by and among Atlantic, Channel Therapeutics, Inc. and New Channel, Inc. dated February 20, 1997.
- 10.24(4) Warrant issued to John Prendergast to purchase 37,500 shares of Atlantic's Common Stock.
- 10.25(4) Warrant issued to Dian Griesel to purchase 24,000 shares of Atlantic's Common Stock.
- 10.26(7) Amendment No.1 to Development & License Agreement by and between Optex and Bausch & Lomb Surgical, Inc. dated September 16, 1999.
- 10.27(8) Financial Advisory and Consulting Agreement by and between Atlantic

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and Joseph Stevens & Company, Inc. dated January 4, 2000.

- 10.28(8) Warrant No.1 issued to Joseph Stevens & Company, Inc. to purchase 150,000 shares of Atlantic's Common Stock exercisable January 4, 2000.
- 10.29(8) Warrant No.2 issued to Joseph Stevens & Company, Inc. to purchase 150,000 shares of Atlantic's Common Stock exercisable January 4, 2001.
- 10.30(8) Warrant No.3 issued to Joseph Stevens & Company, Inc. to purchase 150,000 shares of Atlantic's Common Stock exercisable January 4, 2002.
- 10.31(9) Preferred Stock Purchase Agreement dated May 12, 2000, between Atlantic and TeraComm Research, Inc.
- 10.32(9) Warrant Certificate issued May 12, 2000, by Atlantic to TeraComm Research, Inc.
- 10.33(9) Stockholders Agreement dated May 12, 2000, among TeraComm Research, Inc., the common stockholders of TeraComm, and Atlantic.
- 10.34(9) Registration Rights Agreement dated May 12, 2000, between Atlantic and TeraComm Research, Inc. with respect to shares of TeraComm preferred stock issued to Atlantic.
- h10.35(9) Registration Rights Agreement dated May 12, 2000, between Atlantic and TeraComm Research, Inc. with respect to shares of Atlantic common stock issued to TeraComm.
- 10.36(9) Employment Agreement dated as of April 10, 2000, between Atlantic and A. Joseph Rudick.
- 10.37(9) Employment Agreement dated as of April 3, 2000, between Atlantic and Frederic P. Zotos.
- 10.38(9) Employment Agreement dated as of April 10, 2000, between Atlantic and Nicholas J. Rossettos, as amended.
- 10.39(9) Employment Agreement dated as of May 15, 2000, between Atlantic and Walter Glomb.
- 10.40(9) Employment Agreement dated as of April 18, 2000, between Atlantic and Kelly Harris.
- 10.41(10) Amendment dated as of July 18, 2000, to the Preferred Stock Purchase Agreement dated May 12, 2000, between Atlantic and TeraComm Research, Inc.
- 10.42(10) Convertible Preferred Stock and Warrants Purchase Agreement dated September 28, 2000, among Atlantic, BH Capital Investments, L.P. and Excalibur Limited Partnership.
- 10.43(10) Registration Rights Agreement dated September 28, 2000 among Atlantic, BH Capital Investments, L.P., and Excalibur Limited Partnership.
- 10.44(10) Escrow Agreement dated September 28, 2000 among Atlantic, BH Capital Investments, L.P., and Excalibur Limited Partnership.
- 10.45(10) Form of Stock Purchase Warrants issued on September 28, 2000 to BH

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Capital Investments, L.P., exercisable for shares of common stock of Atlantic.

10.46(10) Form of Stock Purchase Warrants issued on September 28, 2000 to Excalibur Limited Partnership, exercisable for shares of common stock of Atlantic.

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10.47(10) Amendment No. 1, dated October 31, 2000, to Convertible Preferred Stock and Warrants Purchase Agreement dated September 28, 2000, among Atlantic, BH Capital Investments, L.P., and Excalibur Limited Partnership.

10.48(12) Stock Repurchase Agreement, dated December 4, 2000, among Atlantic, BH Capital Investments, L.P., and Excalibur Limited Partnership.

10.49(14) Letter Agreement, dated December 28, 2000, among Atlantic and BH Capital Investments, L.P., and Excalibur Limited Partnership.

10.50(11) Amendment No. 2, dated January 9, 2001, to Convertible Preferred Stock and Warrants Purchase Agreement dated September 28, 2000, among Atlantic, BH Capital Investments, L.P., and Excalibur Limited Partnership.

10.51(14) Amendment No. 1, dated January 9, 2001, to Registration Rights Agreement dated September 28, 2000, among Atlantic and BH Capital Investments, L.P. and Excalibur Limited Partnership.

10.52(11) Amendment No. 3, dated January 19, 2001, to Convertible Preferred Stock and Warrants Purchase Agreement dated September 28, 2000, among Atlantic, BH Capital Investments, L.P., and Excalibur Limited Partnership.

10.53(14) Letter Agreement, dated January 25, 2001, among Atlantic and BH Capital Investments, L.P., and Excalibur Limited Partnership.

10.54(13) Stock Repurchase Agreement No. 2, dated March 9, 2001, among Atlantic, BH Capital Investments, L.P., and Excalibur Limited Partnership.

10.55* Common Stock Purchase Agreement, dated March 16, 2001, between Atlantic and Fusion Capital Fund II, LLC.

10.56* Warrant Certificate, issued March 8, 2001 by Atlantic to Dian Griesel.

21.1(1) Subsidiaries of Atlantic.

24.1 Power of Attorney (included in Part III of this Report under the caption "Signatures").

+ Confidential treatment has been granted as to certain portions of these exhibits.

* Filed herewith.

(1) Incorporated by reference to exhibits of Atlantic's Registration Statement on Form SB-2, Registration #33-98478, as filed with the

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Securities and Exchange Commission (the "SEC") on October 24, 1995 and as amended by Amendment No. 1, Amendment No. 2, Amendment No.3, Amendment No. 4 and Amendment No. 5, as filed with the Commission on November 9, 1995, December 5, 1995, December 12, 1995, December 13, 1995 and December 14, 1995, respectively.

- (2) Incorporated by reference to exhibits of Atlantic's Current Report on Form 8-KSB, as filed with the SEC on August 30, 1996.
- (3) Incorporated by reference to exhibits of Atlantic's Form 10-QSB for the period ended September 30, 1996.
- (4) Incorporated by reference to exhibits of Atlantic's Form 10-QSB for the period ended March 31, 1996.

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- (5) Incorporated by reference to exhibits of Atlantic's Current Report on Form 8-KSB, as filed with the SEC on June 9, 1997.
- (6) Incorporated by reference to exhibits of Atlantic's Registration Statement on Form S-3 (Registration No. 333-34379), as filed with the Commission on August 26, 1997, and as amended by Amendment No. 1 as filed with the SEC on August 28, 1997.
- (7) Incorporated by reference to exhibits of Atlantic Form 10-QSB for the period ended September 30, 1999.
- (8) Incorporated by reference to exhibits of Atlantic's Form 10-KSB for the period ended December 31, 1999.
- (9) Incorporated by reference to exhibits of Atlantic's Form 10-QSB for the period ended June 30, 2000.
- (10) Incorporated by reference to exhibits of Atlantic's Form 10-QSB for the period ended September 30, 2000.
- (11) Incorporated by reference to exhibits of Atlantic's Form 8-K filed on January 24, 2001.
- (12) Incorporated by reference to exhibits of Atlantic's Form 8-K filed on December 11, 2000.
- (13) Incorporated by reference to exhibits of Atlantic's Form 8-K filed on March 14, 2001.
- (14) Incorporated by reference to exhibits of Atlantic's Form 10-KSB filed on April 17, 2001.

Reports on Form 8-K

On January 24, 2001, Atlantic filed with the SEC a report on Form 8-K reporting the renegotiation of the terms of the investment for shares of Atlantic's Series B convertible preferred stock made by BH Capital Investments, L.P. and Excalibur Limited Partnership (the "Investors") in order to address concerns raised by Atlantic stockholders and the NASDAQ stock market.

On January 30, 2001, Atlantic filed with the SEC a report on Form 8-K stating that Atlantic and the Investors had further amended certain terms of the investment.

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On February 5, 2001, Atlantic filed with the SEC a report on Form 8-K stating that on January 31, 2001, Atlantic and Optex Ophthalmologics, Inc. ("Optex"), a majority-owned subsidiary of Atlantic, signed an asset purchase agreement (the "Optex Agreement") with Bausch & Lomb, Incorporated ("Bausch & Lomb") and Bausch & Lomb Surgical, Inc., a wholly-owned subsidiary of Bausch & Lomb, providing for the sale of substantially all of Optex's assets to Bausch & Lomb.

On March 14, 2001, Atlantic filed with the SEC a report on Form 8-K stating that, pursuant to stock repurchase agreement no. 2 among Atlantic and the Investors, Atlantic repurchased from the Investors all shares of Atlantic's Series B convertible preferred stock held by the Investors.

On March 16, 2001, Atlantic filed with the SEC a report on Form 8-K reporting the sale on March 2, 2001, by Optex to Bausch & Lomb of substantially all the assets of Optex, pursuant to the asset purchase agreement dated January 31, 2001, among Bausch & Lomb, a Bausch & Lomb affiliate, Atlantic, and Optex.

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SIGNATURES

In accordance with the requirements of the Exchange Act, Atlantic caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ATLANTIC TECHNOLOGY VENTURES, INC.

Date: July 16, 2001

/s/ Frederic P. Zotos

Frederic P. Zotos
President, Chief Executive Officer, and Director

Date: July 16, 2001

/s/ Nicholas J. Rossettos

Nicholas J. Rossettos
Chief Financial Officer

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